

## Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

COME-00 XMB-07 CIAE-00 INR-10 NSAE-00 IGA-02 FRB-02

L-03 AGR-20 DRC-01 ( ISO ) W  
----- 011085

R 190948Z MAR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1350

INFO AMEMBASSY THE HAGUE

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 3385

E.O. 11652: GDS

TAGS: EFIN, EAID, BEXP, ID, IBRD

SUBJECT: AMBASSADOR'S DISCUSSIONS WITH FINANCE MINISTER  
ALI WARDHANA

REF: THE HAGUE 1285

PASS EXIMBANK

1. SUMMARY: AMBASSADOR RAISED WITH FINANCE MINISTER  
PROSPECT OF REDUCED CONCESSIONAL AID, IN FIRST OF  
SERIES OF DISCUSSIONS THIS TOPIC WITH KEY GOI OFFICIALS.  
MINISTER ACKNOWLEDGED LIKELIHOOD LOWER CONCESSIONAL  
AID LEVELS BUT LOOKS TO "LESS-THAN-CONCESSIONAL" IBRD  
AND SIMILAR CREDITS AS OFFSET. HE WAS NON-COMMITTAL  
ABOUT COUNTING EXIM CREDITS TOWARD AID GOAL, BUT LEFT OPENING  
FOR FURTHER PCNBING ON THIS AND ON POSSIBILITY  
OF GBU MODIFYING ITS REFUSAL OF GUARANTEES FOR EXIM  
LOANS. END SUMMARY

2. DURING MARCH 16 COURTESY CALL BY AMBASSADOR NEWSOM, GOI  
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FINANCE MINISTER ALI WARDHANA MADE FOLLOWING POINTS OF

SPECIAL INTEREST:

BALANCE OF PAYMENTS OUTLOOK. CONTINUED HIGH IMPORT PRICES, ESPECIALLY FOR FERTILIZER AND RICE (LATTER AVERAGING \$450 PER TON IN RECENT PURCHASES), CREATE INFLATION AND BUDGETARY PROBLEMS FOR GOI. FOR 1.2 MILLION TONS OF RICE NEEDED, OVER \$500 MILLION NOW REQUIRED. OIL PRICE INCREASES GIVE PROSPECT FOR \$1 BILLION IMPROVEMENT IN INDONESIA'S FOREIGN EXCHANGE RESERVE POSITION IN FY 1974/75 (ADJUSTED FOR HIGH RICE AND FERTILIZER PRICES). AFTER ALLOANCE FOR HEAVIER IMPORT SUBSIDY COSTS MINISTER AIMS FOR AS LARGE A BUDGETARY SURPLUS AS POSSIBLE TO DAMPEN INFLATIONARY PRESSURES. BECAUSE OF INDONESIA'S GREATLY IMPROVED RESERVE POSITION, GOI AND IMF HAVE AGREED THAT RENEWAL OF STANDBY ARRANGEMENT UNNECESSARY THIS YEAR. IN ACT, INDONESIA TO CONTRIBUTE \$97 MILLION TO IMF PROGRAMS FOR DEVELOPING NATIONS. HOWEVER, GOI TO CONTINUE CEILINGS ARISING FROM 1973 STANDBY ARRANGEMENTS LIMITING BORROWINGS BY PERTAMINA WITHIN 1-15 YEAR RANGE.

3. FOREIGN AID LOUTLOOK. AMBASSADOR POINTED OUT CHANGED CONDITIONS AND PUBLIC ATTITUDES IN DONOR COUNTRIES WHICH PORTEND PROBABLE DECREASES CONCESSIONAL ASSIEYANCE FO  
YINDONESIA. HE ASKED IF INDONESIA, IN  
LIGHT IMPROVED BALANCE OF PAYMENTS OUTLOOK,  
MIGHT REDUCE ITS IGGI AID REQUEST BELOW \$850 MILWHON  
TARGET SET IN DECEMBER. MINISTER RECOGNIZED LIKELIHOOD  
OF DECLINE IN CONCESSIONAL ASSISTANCE BUT COUNTERED  
THAT SOME DONORS, E.G. IBRD, WOULD  
ACTUALLY INCREASE  
TOTAL AID BY PROVIDING LARGER ACCOUNTS AT LESS-THAN-  
CONCESSIONAL TERMS. HE RE-EMPHASIZED INDONESIA'S  
CONTINUINDNEED FOR CONCESSIONAL AID. AMBASSADOR  
EXPRESSED DESIRE TO WORK OUT MUTUALLY WITH INDONESIA  
HOW BEST TO ACCOMPLISH TRANSITION TOWARD LOWER  
AID LEVELS. HE ASKED IF INDONESIA WOULD NOW COUNT U.S.  
EXIM-TYPE CREDITS TOWARD ITS ANNUAL AID TARGET. MINISTER  
AVOIDED DIRECT REPLY BUT NOTED THAT INDONESIA WOULD  
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COUNT IBRD CREDITS WHICH HE ESTIMATED INVOLVED ABOUT  
20 PERCENT GRANT ELEMENT AT U 1/4 PERCENT INTEREST RATE.

4. U.S. EXIMBANK FINANCING. MINISTER NONCOMMITTAL ALSO  
ABOUT MODERATING GOI REFUSAL TO GIVE GUARANTEES FOR  
EXIM CREDITS. WE MENTIONED U.S. COMPANY INTERESTS IN  
COOPERATION WITH GOI IN PLANS FOR FERTILIZER PRODUCTION  
AND THAT CERTAIN COMPANIES MIGHT PROPOSE EXIM

FINANCING FOR SUCH PROJECTS. MINISTER SHOWED SPECIAL INTEREST IN GOVERNMENT FERTILIZER PLANS AND INDICATED WILLINGNESS TO CONSIDER EXIM FINANCING PROPOSALS IN THIS CONTEXT.

5. COMMENT: AMBASSADOR RAISED OUTLOOK FOR DECREASING CONCESSIONAL AID WITH FINANCE MINISTER AS FIRST STEP IN EXPECTED SERIES OF DISCUSSIONS WITH KEY GOI OFFICIALS ON THIS SUBJECT. RESPONSE OF FINANCE MINISTER WAS ENCOURAGING IN ONE RESPECT. HE INDICATED UNDERSTANDING OF PROBLEMS FOR DONORS OF CONCESSIONAL AID IN FACE OF MAJOR IMPROVEMENT IN GOI BALANCE OF PAYMENTS PROSPECTS. AT SAME TIME, HE MAY STILL HARBOR, OR AT LEAST GEIGNS, UNDULY OPTIMISTIC EXPECTATIONS ABOUT EXTENT TO WHICH DONORS ABLE OFFSET LOWER CONCESSIONAL FINANCING WITH INCREASED OVERALL AID PLEDGES. IN THIS CONTEXT BELIEVE WE SHOULD PRGFE GOI ATTITUDES TOWARD EXIM FINANCING AT AN EARLY DATE. IN VIEW PRESIDENT SUHARTO'S HIGH PRIORITY ON IMPROVING FERTILIZER PRODUCTION, SUCH PROJECTS SHOULD PROVIDE MOST USEFUL TEST OF GOI INTEREST.

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